

**CITY OF CHEROKEE**

**INDEPENDENT AUDITORS' REPORTS  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

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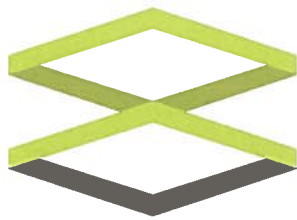
CITY OF CHEROKEE  
OFFICIALS

BEFORE JANUARY 2016

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2018
Wayne Pingel	Council Member, Mayor Pro-Tem	January 2016
Chad Brown	Council Member	January 2016
Jim Peck	Council Member	January 2016
Emily Johnson	Council Member	January 2018
Will Miller	Council Member	January 2018
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
Alyssa Herbold	Attorney	Indefinite

AFTER JANUARY 1, 2016

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2018
Wayne Pingel	Council Member, Mayor Pro-Tem	January 2020
Chad Brown	Council Member	January 2020
Jim Agnitsch	Council Member	January 2020
Emily Johnson	Council Member	January 2018
Will Miller	Council Member	January 2018
Sam Kooiker	City Administrator	Indefinite
Diane Cargn	City Clerk/Treasurer	Indefinite
Alyssa Herbold	Attorney	Indefinite



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Certified Public Accountants

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FAX 712-338-2510

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
of the City of Cherokee, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on Aggregate Discretely Presented Component Units**

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles for the basis of accounting described in Note 1 require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles for the basis of accounting described in Note 1, the cash basis net position, revenues, and expenses of the aggregate discretely presented component units not reported are \$276,850, \$43,349, and \$7,327, respectively.

### **Adverse Opinion on Aggregate Discretely Presented Component Units**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Cherokee as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements of the City's primary government for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 25 through 31, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cherokee's internal control over financial reporting and compliance.

*Wintner, Stave & Co., LLA*

October 24, 2016  
Spencer, Iowa

## **BASIC FINANCIAL STATEMENTS**

CITY OF CHEROKEE  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Program Receipts		
		Charges for	Operating	Capital
	<u>Disbursements</u>	<u>Service</u>	<u>Grants and</u> <u>Contributions</u>	<u>Grants and</u> <u>Contributions</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety .....	\$1,281,273	\$ 57,644	\$ 17,900	
Public works .....	1,229,439		649,162	
Culture and recreation .....	914,102	208,074	3,946	
Community & economic development .....	3,000			
General government .....	391,755		20,016	\$ 59,251
Debt service .....	721,722		63,347	
Capital projects .....	614,263			1,152,876
Total governmental activities	<u>5,155,554</u>	<u>265,718</u>	<u>754,371</u>	<u>1,212,127</u>
Business-type activities:				
Water .....	696,787	726,721		
Sewer .....	1,152,223	988,207		
Landfill .....	356,891	376,058		
Solid waste .....	305,352	306,141		
Storm water .....	42,451	80,748		
Total business-type activities	<u>2,553,704</u>	<u>2,477,875</u>		
TOTAL	<u>\$7,709,258</u>	<u>\$2,743,593</u>	<u>\$ 754,371</u>	<u>\$1,212,127</u>
General Receipts and Transfers:				
Property and other City tax levied for:				
General purposes .....				
Debt service .....				
Utility franchise tax .....				
Tax increment financing .....				
Local option sales tax .....				
Hotel/motel tax .....				
Grants and contributions not restricted to specific purposes .....				
Unrestricted investment interest .....				
Bond and loan proceeds .....				
Miscellaneous .....				
Transfers .....				
Total general receipts and transfers				
Change in cash basis net position .....				
Cash basis net position - beginning of year				
Cash basis net position - end of year				
Cash basis net position:				
Restricted:				
Nonexpendable:				
Cemetery perpetual care .....				
Expendable:				
Debt service .....				
Streets .....				
Employee benefits .....				
Other purposes .....				
Unrestricted .....				
Total cash basis net position				



Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business-Type Activities	Total
\$(1,205,729)		\$(1,205,729)
(580,277)		(580,277)
(702,082)		(702,082)
(3,000)		(3,000)
(312,488)		(312,488)
(658,375)		(658,375)
538,613		538,613
<u>(2,923,338)</u>		<u>(2,923,338)</u>
	\$ 29,934	29,934
	(164,016)	(164,016)
	19,167	19,167
	789	789
	<u>38,297</u>	<u>38,297</u>
	<u>(75,829)</u>	<u>(75,829)</u>
<u>(2,923,338)</u>	<u>(75,829)</u>	<u>(2,999,167)</u>
1,640,465		1,640,465
351,084		351,084
271,004		271,004
2,228		2,228
541,640		541,640
103,675		103,675
50,721	36,837	87,558
16,816	4,068	20,884
800,000		800,000
485,017	13,436	498,453
51,933	(51,933)	
<u>4,314,583</u>	<u>2,408</u>	<u>4,316,991</u>
1,391,245	(73,421)	1,317,824
<u>885,450</u>	<u>1,486,132</u>	<u>2,371,582</u>
<u>\$ 2,276,695</u>	<u>\$1,412,711</u>	<u>\$ 3,689,406</u>
\$ 139,878		\$ 139,878
64,235	\$ 37,806	102,041
1,339,572		1,339,572
90,469		90,469
211,154		211,154
<u>431,387</u>	<u>1,374,905</u>	<u>1,806,292</u>
<u>\$ 2,276,695</u>	<u>\$1,412,711</u>	<u>\$ 3,689,406</u>

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Special Revenue		
	General	Road Use	Employee Benefits	Local Option Sales Tax
RECEIPTS:				
Property tax .....	\$1,142,012		\$498,453	
Tax increment financing .....				
Other city taxes .....	335,025			\$541,640
Licenses and permits .....	22,350			
Use of money and property .....	12,895		315	1,802
Intergovernmental .....	122,699	\$649,162	20,016	57,920
Charges for service .....	248,541			
Special assessments .....				
Miscellaneous .....	<u>210,432</u>	<u>45,661</u>	<u>286,726</u>	
TOTAL RECEIPTS	<u>2,093,954</u>	<u>694,823</u>	<u>805,510</u>	<u>601,362</u>
DISBURSEMENTS:				
Operating:				
Public safety .....	759,347		521,926	
Public works .....		513,521	101,525	571,651
Culture and recreation .....	775,949		125,416	
Community and economic development .....	3,000			
General government .....	383,808		96,849	
Debt service .....				6,132
Capital projects .....				
TOTAL DISBURSEMENTS	<u>1,922,104</u>	<u>513,521</u>	<u>845,716</u>	<u>577,783</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>171,850</u>	<u>181,302</u>	<u>(40,206)</u>	<u>23,579</u>
OTHER FINANCING SOURCES (USES):				
Bond and loan proceeds .....				800,000
Transfers in .....				
Transfers out .....	<u>(17,118)</u>	<u>(35,000)</u>		<u>(289,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(17,118)</u>	<u>(35,000)</u>		<u>511,000</u>
CHANGE IN CASH BALANCES	154,732	146,302	(40,206)	534,579
CASH BALANCES (DEFICIT) - BEGINNING OF YEAR ..	<u>259,595</u>	<u>259,940</u>	<u>130,675</u>	<u>398,751</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 414,327</u>	<u>\$406,242</u>	<u>\$ 90,469</u>	<u>\$933,330</u>
CASH BASIS FUND BALANCES:				
Nonspendable - cemetery perpetual care .....				
Restricted for:				
Debt service .....				
Streets .....		\$406,242		\$933,330
Employee benefits .....			\$ 90,469	
Other purposes .....				
Unassigned .....	<u>\$ 414,327</u>			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 414,327</u>	<u>\$406,242</u>	<u>\$ 90,469</u>	<u>\$933,330</u>

## Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 351,084		\$1,991,549
\$ 39,654		\$ 2,228	2,228
			916,319
			22,350
84	484	1,236	16,816
1,094,956	13,996	3,946	1,962,695
	49,351		248,541
			49,351
<u>51,768</u>	<u>6,000</u>	<u>27,676</u>	<u>628,263</u>
<u>1,186,462</u>	<u>420,915</u>	<u>35,086</u>	<u>5,838,112</u>
			1,281,273
65,643			1,252,340
		37,737	939,102
			3,000
			480,657
	715,590		721,722
<u>614,263</u>			<u>614,263</u>
<u>679,906</u>	<u>715,590</u>	<u>37,737</u>	<u>5,292,357</u>
<u>506,556</u>	<u>(294,675)</u>	<u>(2,651)</u>	<u>545,755</u>
			800,000
52,118	340,933	26,409	419,460
	<u>(26,409)</u>		<u>(367,527)</u>
<u>52,118</u>	<u>314,524</u>	<u>26,409</u>	<u>851,933</u>
558,674	19,849	23,758	1,397,688
<u>(634,055)</u>	<u>44,386</u>	<u>327,274</u>	<u>786,566</u>
<u>\$ (75,381)</u>	<u>\$ 64,235</u>	<u>\$ 351,032</u>	<u>\$2,184,254</u>
		\$ 139,878	\$ 139,878
	\$ 64,235		64,235
			1,339,572
			90,469
		211,154	211,154
<u>\$ (75,381)</u>			<u>338,946</u>
<u>\$ (75,381)</u>	<u>\$ 64,235</u>	<u>\$ 351,032</u>	<u>\$2,184,254</u>

See Notes to Financial Statements

CITY OF CHEROKEE  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 8) .....	\$2,184,254
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position. ....	<u>92,441</u>
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CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	<u>\$2,276,695</u>
-------------------------------------------------------------	--------------------

CHANGE IN CASH BALANCES (Page 8) .....	\$1,397,688
----------------------------------------	-------------

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position. ....	<u>(6,443)</u>
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CHANGE IN CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	<u>\$1,391,245</u>
-----------------------------------------------------------------------	--------------------

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service .....	\$763,867	\$1,054,697	\$762,947	\$2,581,511	
Miscellaneous .....		12,423	1,013	13,436	\$ 700
TOTAL OPERATING RECEIPTS	<u>763,867</u>	<u>1,067,120</u>	<u>763,960</u>	<u>2,594,947</u>	<u>700</u>
OPERATING DISBURSEMENTS:					
Business-type activities .....	<u>733,933</u>	<u>859,204</u>	<u>704,694</u>	<u>2,297,831</u>	<u>7,388</u>
TOTAL OPERATING DISBURSEMENTS	<u>733,933</u>	<u>859,204</u>	<u>704,694</u>	<u>2,297,831</u>	<u>7,388</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>29,934</u>	<u>207,916</u>	<u>59,266</u>	<u>297,116</u>	<u>(6,688)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):					
Intergovernmental .....		36,837		36,837	
Interest on investments .....	2,257	919	892	4,068	245
Debt service .....		(359,509)		(359,509)	
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>2,257</u>	<u>(321,753)</u>	<u>892</u>	<u>(318,604)</u>	<u>245</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	32,191	(113,837)	60,158	(21,488)	(6,443)
TRANSFERS OUT .....	<u>(48,621)</u>	<u>(3,312)</u>		<u>(51,933)</u>	
CHANGE IN CASH BALANCES	(16,430)	(117,149)	60,158	(73,421)	(6,443)
CASH BALANCES - BEGINNING OF YEAR .....	<u>911,839</u>	<u>257,315</u>	<u>316,978</u>	<u>1,486,132</u>	<u>98,884</u>
CASH BALANCES - END OF YEAR	<u>\$895,409</u>	<u>\$ 140,166</u>	<u>\$377,136</u>	<u>\$1,412,711</u>	<u>\$92,441</u>
CASH BASIS FUND BALANCES:					
Restricted for debt service .....		\$ 37,806		\$ 37,806	
Unrestricted .....	<u>\$895,409</u>	<u>102,360</u>	<u>\$377,136</u>	<u>1,374,905</u>	<u>\$92,441</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$895,409</u>	<u>\$ 140,166</u>	<u>\$377,136</u>	<u>\$1,412,711</u>	<u>\$92,441</u>

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2016

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR .....	\$ -
RECEIPTS:	
Property tax .....	18,758
Intergovernmental .....	753
Miscellaneous .....	4,114
TOTAL RECEIPTS	<u>23,625</u>
DISBURSEMENTS:	
To other governments .....	<u>24,052</u>
CASH BALANCE (DEFICIT) - END OF YEAR	<u><u>\$ (427)</u></u>

## **NOTES TO FINANCIAL STATEMENTS**

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with accounting principles generally accepted in the United States of America as they relate to the exclusion of the component units.

Cherokee Community Foundation and Cherokee Public Library Foundation are considered component units of the City of Cherokee since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, if applicable, are reported as an Agency Fund of the City.

**B. Basis of Presentation**

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.



CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in three categories:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for road construction.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

**C. Measurement Focus and Basis of Accounting**

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the debt service and business-type activities functions.

**F. Management's Review**

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 600,000	\$113,330	\$ 319,000	\$ 37,649	\$ 919,000	\$150,979
2018	605,000	95,174	331,000	31,886	936,000	127,060
2019	495,000	82,225	343,000	25,922	838,000	108,147
2020	465,000	71,090	355,000	19,728	820,000	90,818
2021	480,000	59,252	368,000	13,314	848,000	72,566
2022 - 2026	1,390,000	116,019	464,000	17,768	1,854,000	133,787
2027 - 2031	<u>165,000</u>	<u>8,376</u>	<u>45,000</u>	<u>4,170</u>	<u>210,000</u>	<u>12,546</u>
Total	<u>\$4,200,000</u>	<u>\$545,466</u>	<u>\$2,225,000</u>	<u>\$150,437</u>	<u>\$6,425,000</u>	<u>\$695,903</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease equipment with historical cost totaling \$63,318. Interest of \$2,431 was paid during the year ended June 30, 2016. Future minimum lease payments, including interest at a rate of 3.25% per annum, consist of \$32,690 due during the year ended June 30, 2017.

Revenue Notes

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,704,000 in sewer revenue notes issued in 1999, 2002, and 2011. Proceeds from the notes provided financing for sewer system improvements. The notes are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 80% percent of net receipts as defined in bond covenants. The total principal and interest remaining to be paid on the notes is \$2,375,437. For the current year, principal and interest paid and total customer net receipts were \$354,870 and 207,916, respectively.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. NOTES PAYABLE - Continued**

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds. Net revenues for the sewer utility during the year ended June 30, 2016 did not produce net revenues to the extent required by bond resolutions.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

At June 30, 2016, the balance of the bond and interest sinking fund is \$37,806.

**4. PENSION PLAN**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, IA 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**4. PENSION PLAN - Continued**

Pension Benefits - Continued - Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll, and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$144,096.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**4. PENSION PLAN - Continued**

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$761,527 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.015414% which was an increase of 0.000902% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City pension expense, deferred outflows of resources, and deferred inflows of resources totaled \$87,095, \$215,838, and \$291,251, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation.
Wage Growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**4. PENSION PLAN - Continued**

Actuarial Assumptions - Continued - The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	<u>1</u>	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$1,636,231	\$ 761,527	\$ 23,600

IPERS' Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).



CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employees and retirees. There are 28 active and 6 retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Benefits for the current retirees under age 65 are the same as the medical/prescription drug benefits for active employees under a one-time early retirement policy where the City pays the retiree premiums at the same level as for active employees.

Contributions will be required for retiree coverage of employees retiring in the future. The retiree contributions will be based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$401 for single coverage to \$1,229 for family coverage. For the year ended June 30, 2016, the City made \$48,472 in contributions to the retiree benefit plan.

**6. COMPENSATED ABSENCES**

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2016, primarily relating to the General Fund, is \$209,848.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2016.

**7. LANDFILL CONTRACT**

The solid waste disposal contract, which continues indefinitely, requires total annual payments by the City of approximately \$357,000. This amount is based on a percentage of total population within the county.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**8. INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	\$ 17,118
	Special Revenue: Road Use	35,000
Total Transfers to Capital Projects		<u>52,118</u>
Debt Service	Special Revenue: Local Option Sales Tax	289,000
	Proprietary: Water	48,621
	Proprietary: Sewer	3,312
Total Transfers to Debt Service		<u>340,933</u>
Tax Increment Financing	Debt Service	<u>26,409</u>
Total		<u>\$419,460</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**9. RISK MANAGEMENT**

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. RISK MANAGEMENT - Continued**

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2016 were \$132,402.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims, or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, and lift station in flood area. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. DEFICIT FUND BALANCES**

The following funds had a deficit balance at June 30, 2016:

<u>Fund</u>	<u>Deficit Balance June 30, 2016</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Capital Projects Fund	\$ 75,381	Increase in expenditures	Increase revenues
Proprietary: Solid waste	\$ 5,169	Increase in expenditures	Reduce spending
Agency: Cherokee Aviation	\$ 427	Timing of reimbursement	Receive reimbursement

**11. LITIGATION**

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

**12. COMMITMENTS**

At June 30, 2016, the City had construction contracts for infrastructure projects totaling approximately \$3,364,810 of which approximately \$1,783,279 remained outstanding.

The City has been awarded a \$347,900 Community Development Block Grant (CDBG) for a housing rehabilitation program. The grant is for the rehabilitation of ten low-to-moderate income owner-occupied housing units within a target area in Cherokee city limits. The City receives funding from the grant as reimbursements of amounts expended and is required to provide \$30,000 in matching funds. Grant funding will be expended as 5-year forgivable loans, with mortgage payback to be prorated if the home is vacated before the 5-year period is complete. Through June 30, 2016, \$208,464 had been expended to seven homeowners and for administrative costs.

**13. SUBSEQUENT EVENTS**

In September 2016, the City authorized the issuance of \$2,000,000 in General Obligation Capital Loan Notes and \$1,380,000 in General Obligation Refunding Capital Loans Notes.

Between July and October 2016, the City entered into construction contracts and equipment purchases totaling \$636,593 for various street projects and equipment.

## OTHER INFORMATION

CITY OF CHEROKEE  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
OTHER INFORMATION (UNAUDITED)  
YEAR ENDED JUNE 30, 2016

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax .....	\$1,991,549		
Tax increment financing collections .....	2,228		
Other city taxes .....	916,319		
Licenses and permits .....	22,350		
Use of money and property .....	16,816	\$ 4,313	\$ 245
Intergovernmental .....	1,962,695	36,837	
Charges for service .....	248,541	2,581,511	
Special assessments .....	49,351		
Miscellaneous .....	<u>628,263</u>	<u>14,136</u>	<u>700</u>
TOTAL RECEIPTS	<u>5,838,112</u>	<u>2,636,797</u>	<u>945</u>
DISBURSEMENTS:			
Public safety .....	1,281,273		
Public works .....	1,252,340		
Culture and recreation .....	939,102		
Community and economic development .....	3,000		
General government .....	480,657		
Debt service .....	721,722		
Capital projects .....	614,263		
Business-type activities .....		<u>2,664,728</u>	<u>7,388</u>
TOTAL DISBURSEMENTS	<u>5,292,357</u>	<u>2,664,728</u>	<u>7,388</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	545,755	(27,931)	(6,443)
OTHER FINANCING SOURCES (USES) - NET ...	<u>851,933</u>	<u>(51,933)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	1,397,688	(79,864)	(6,443)
CASH BALANCES - BEGINNING OF YEAR .....	<u>786,566</u>	<u>1,585,016</u>	<u>98,884</u>
CASH BALANCES - END OF YEAR	<u>\$2,184,254</u>	<u>\$1,505,152</u>	<u>\$ 92,441</u>

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<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,991,549	\$1,958,020	\$2,009,823	\$ (18,274)
2,228	2,407	2,407	(179)
916,319	993,814	993,814	(77,495)
22,350	17,495	17,495	4,855
20,884	20,435	20,435	449
1,999,532	1,967,872	2,198,341	(198,809)
2,830,052	2,835,103	2,835,103	(5,051)
49,351	45,000	45,000	4,351
<u>641,699</u>	<u>218,785</u>	<u>486,740</u>	<u>154,959</u>
<u>8,473,964</u>	<u>8,058,931</u>	<u>8,609,158</u>	<u>(135,194)</u>
1,281,273	1,063,138	1,319,838	38,565
1,252,340	1,735,345	1,735,345	483,005
939,102	905,832	975,832	36,730
3,000	78,000	78,000	75,000
480,657	511,931	636,531	155,874
721,722	715,140	715,140	(6,582)
614,263	831,075	831,075	216,812
<u>2,657,340</u>	<u>2,618,480</u>	<u>2,618,480</u>	<u>(38,860)</u>
<u>7,949,697</u>	<u>8,458,941</u>	<u>8,910,241</u>	<u>960,544</u>
524,267	(400,010)	(301,083)	825,350
<u>800,000</u>	<u>541,533</u>	<u>541,533</u>	<u>258,467</u>
1,324,267	<u>\$ 141,523</u>	<u>\$ 240,450</u>	<u>\$1,083,817</u>
<u>2,272,698</u>			
<u>\$3,596,965</u>			

CITY OF CHEROKEE  
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$451,300. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the debt service and business-type activities functions.



CITY OF CHEROKEE  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO FISCAL YEARS \*  
(IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability .....	.015414%	.014501%
City's proportionate share of the net pension liability .....	\$ 762	\$ 975
City's covered-employee payroll .....	\$ 1,635	\$ 1,570
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	46.61%	62.10%
Plan fiduciary net position as a percentage of the total pension liability .....	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

CITY OF CHEROKEE  
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TEN FISCAL YEARS  
(IN THOUSANDS)

OTHER INFORMATION (UNAUDITED)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution .....	\$ 144	\$ 152	\$ 151	\$ 138
Contributions in relation to the statutorily required contribution .....	<u>144</u>	<u>152</u>	<u>151</u>	<u>138</u>
Contribution deficiency (excess) .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll .....	\$ 1,564	\$ 1,635	\$ 1,570	\$ 1,513
Contributions as a percentage of covered-employee payroll.....	9.22%	9.29%	9.59%	9.15%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 126	\$ 110	\$ 99	\$ 90	\$ 84	\$ 80
<u>126</u>	<u>110</u>	<u>99</u>	<u>90</u>	<u>84</u>	<u>80</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,454	\$ 1,393	\$ 1,340	\$ 1,280	\$ 1,228	Not available
8.64%	7.87%	7.41%	7.04%	6.85%	Not available

CITY OF CHEROKEE  
NOTES TO OTHER INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2016

### **Changes of Benefit Terms**

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

### **Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included a one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **SUPPLEMENTARY INFORMATION**

CITY OF CHEROKEE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Special Revenue</u>		
	<u>Urban Renewal TIF</u>	<u>Revolving Loan</u>	<u>Library Memorial</u>
RECEIPTS:			
Tax increment financing .....	\$ 2,228		
Use of money and property .....	144	\$ 207	\$ 18
Intergovernmental .....			3,946
Miscellaneous .....	<u>3,850</u>	<u>6,000</u>	<u>10,427</u>
TOTAL RECEIPTS	<u>6,222</u>	<u>6,207</u>	<u>14,391</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation .....			<u>17,442</u>
TOTAL DISBURSEMENTS			<u>17,442</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>6,222</u>	<u>6,207</u>	<u>(3,051)</u>
OTHER FINANCING SOURCES:			
Operating transfers in .....	<u>26,409</u>		
TOTAL OTHER FINANCING SOURCES	<u>26,409</u>		
NET CHANGE IN CASH BALANCES	32,631	6,207	(3,051)
CASH BALANCES - BEGINNING OF YEAR .....	<u>63,300</u>	<u>79,162</u>	<u>7,954</u>
CASH BALANCES - END OF YEAR	<u>\$ 95,931</u>	<u>\$ 85,369</u>	<u>\$ 4,903</u>
CASH BASIS FUND BALANCES:			
Nonspendable - cemetery perpetual care.....			
Restricted for other purposes .....	<u>\$ 95,931</u>	<u>\$ 85,369</u>	<u>\$ 4,903</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 95,931</u>	<u>\$ 85,369</u>	<u>\$ 4,903</u>

Schedule 1

<u>Parks &amp; Recreation Capital Improvements</u>	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
\$ 59	\$ 808	\$ 2,228
		1,236
		3,946
<u>6,524</u>	<u>875</u>	<u>27,676</u>
<u>6,583</u>	<u>1,683</u>	<u>35,086</u>
<u>20,270</u>	<u>25</u>	<u>37,737</u>
<u>20,270</u>	<u>25</u>	<u>37,737</u>
<u>(13,687)</u>	<u>1,658</u>	<u>(2,651)</u>
<u></u>	<u></u>	<u>26,409</u>
<u></u>	<u></u>	<u>26,409</u>
(13,687)	1,658	23,758
<u>38,638</u>	<u>138,220</u>	<u>327,274</u>
<u>\$ 24,951</u>	<u>\$139,878</u>	<u>\$351,032</u>
 	\$139,878	\$139,878
<u>\$ 24,951</u>	<u></u>	<u>211,154</u>
<u>\$ 24,951</u>	<u>\$139,878</u>	<u>\$351,032</u>

CITY OF CHEROKEE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Funds</u>			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service .....	\$376,058	\$306,141	\$ 80,748	\$762,947
Miscellaneous .....		1,013		1,013
TOTAL OPERATING RECEIPTS	<u>376,058</u>	<u>307,154</u>	<u>80,748</u>	<u>763,960</u>
OPERATING DISBURSEMENTS:				
Business type activities .....	<u>356,891</u>	<u>305,352</u>	<u>42,451</u>	<u>704,694</u>
TOTAL OPERATING DISBURSEMENTS	<u>356,891</u>	<u>305,352</u>	<u>42,451</u>	<u>704,694</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	19,167	1,802	38,297	59,266
NON OPERATING RECEIPTS:				
Interest on investments .....	<u>158</u>		<u>734</u>	<u>892</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	19,325	1,802	39,031	60,158
CASH BALANCES (DEFICIT) - BEGINNING OF YEAR .....	<u>59,278</u>	<u>(6,971)</u>	<u>264,671</u>	<u>316,978</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 78,603</u>	<u>\$ (5,169)</u>	<u>\$303,702</u>	<u>\$377,136</u>
CASH BASIS FUND BALANCES:				
Unrestricted .....	<u>\$ 78,603</u>	<u>\$ (5,169)</u>	<u>\$303,702</u>	<u>\$377,136</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 78,603</u>	<u>\$ (5,169)</u>	<u>\$303,702</u>	<u>\$377,136</u>



CITY OF CHEROKEE  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2016

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
2010 refunding loan	3-10-10	.85 - 2.65%	\$2,830,000	\$ 100,000
2011 capital loan	4-01-11	1.50 - 3.55%	2,500,000	2,045,000
2011 urban renewal	12-08-11	3.50%	245,000	185,000
2012 capital loan	11-15-12	.85 - 1.95%	350,000	285,000
2013 capital loan	6-27-13	1.10 - 3.35%	950,000	950,000
2014 refunding	9-12-14	1.00 - 2.00%	595,000	445,000
2015 capital loan	12-23-15	1.45 - 2.50%	800,000	<u>          </u>
TOTAL				<u>\$4,010,000</u>
Revenue Notes:				
Sewer	9-30-99	1.75%	\$2,170,000	\$ 848,000
Sewer	6-19-02	1.75%	3,390,000	1,564,000
Sewer	5-04-11	3.00%	144,000	<u>122,000</u>
TOTAL				<u>\$2,534,000</u>

## Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 100,000		\$ 2,650	
	235,000	\$1,810,000	59,078	
	25,000	160,000	6,475	
	35,000	250,000	4,438	
	65,000	885,000	22,780	
	150,000	295,000	6,720	
<u>\$ 800,000</u>	<u>                    </u>	<u>800,000</u>	<u>                    </u>	<u>                    </u>
<u>\$ 800,000</u>	<u>\$ 610,000</u>	<u>\$4,200,000</u>	<u>\$102,141</u>	<u>\$                    </u>
	\$ 127,000	\$ 721,000	\$ 14,840	
	176,000	1,388,000	27,370	
<u>                    </u>	<u>6,000</u>	<u>116,000</u>	<u>3,660</u>	<u>                    </u>
<u>\$                    </u>	<u>\$ 309,000</u>	<u>\$2,225,000</u>	<u>\$ 45,870</u>	<u>\$                    </u>

CITY OF CHEROKEE  
NOTE MATURITIES  
JUNE 30, 2016

General Obligation Notes

Miscellaneous Projects

Year Ending June 30,	<u>Issued 4-01-2011</u>		<u>Issued 12-08-2011</u>		<u>Issued 11-15-2012</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2017	2.40%	\$ 240,000	3.50%	\$ 25,000	1.25%	\$ 35,000
2018	2.60%	245,000	3.50%	25,000	1.25%	35,000
2019	2.80%	250,000	3.50%	25,000	1.25%	35,000
2020	3.00%	255,000	3.50%	25,000	1.95%	35,000
2021	3.15%	265,000	3.50%	30,000	1.95%	35,000
2022	3.30%	275,000	3.50%	30,000	1.95%	35,000
2023	3.55%	280,000			1.95%	40,000
2024						
2025						
2026						
2027						
2028						
TOTAL		<u>\$1,810,000</u>		<u>\$ 160,000</u>		<u>\$ 250,000</u>

Revenue Notes

Year Ending June 30,	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Sewer Issued 5-04-11</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2017	1.75%	\$ 132,000	1.75%	\$ 181,000	3.00%	\$ 6,000
2018	1.75%	138,000	1.75%	187,000	3.00%	6,000
2019	1.75%	144,000	1.75%	192,000	3.00%	7,000
2020	1.75%	150,000	1.75%	198,000	3.00%	7,000
2021	1.75%	157,000	1.75%	204,000	3.00%	7,000
2022			1.75%	210,000	3.00%	7,000
2023			1.75%	216,000	3.00%	7,000
2024					3.00%	8,000
2025					3.00%	8,000
2026					3.00%	8,000
2027					3.00%	8,000
2028					3.00%	9,000
2029					3.00%	9,000
2030					3.00%	9,000
2031					3.00%	10,000
TOTAL		<u>\$ 721,000</u>		<u>\$1,388,000</u>		<u>\$ 116,000</u>

Miscellaneous Projects						
Issued 6-27-2013		Issued 9-12-2014		Issued 12-23-15		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
1.10%	\$ 65,000	1.00%	\$ 155,000	2.00%	\$ 80,000	\$ 600,000
1.60%	65,000	1.55%	105,000	2.00%	130,000	605,000
1.60%	70,000	1.55%	35,000	1.45%	80,000	495,000
2.10%	70,000			1.45%	80,000	465,000
2.10%	70,000			2.00%	80,000	480,000
2.50%	70,000			2.00%	85,000	495,000
2.50%	75,000			2.50%	85,000	480,000
2.85%	75,000			2.50%	90,000	165,000
2.85%	80,000			2.50%	90,000	170,000
3.35%	80,000					80,000
3.35%	80,000					80,000
3.35%	85,000					85,000
TOTAL	<u>\$ 885,000</u>		<u>\$ 295,000</u>		<u>\$ 800,000</u>	<u>\$4,200,000</u>

Total

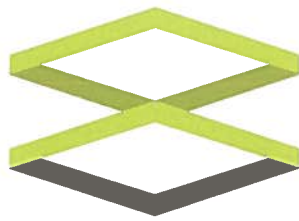
\$ 319,000  
331,000  
343,000  
355,000  
368,000  
217,000  
223,000  
8,000  
8,000  
8,000  
8,000  
9,000  
9,000  
9,000  
10,000

\$2,225,000

CITY OF CHEROKEE  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
RECEIPTS:				
Property and other city tax .....	\$2,907,868	\$2,851,904	\$2,688,304	\$2,728,049
Tax increment financing .....	2,228	2,323	39,395	83,462
Licenses and permits .....	22,350	28,365	16,329	18,754
Use of money and property .....	16,816	14,665	18,720	21,548
Intergovernmental .....	1,962,695	1,106,964	665,171	903,856
Charges for service .....	248,541	180,753	187,778	174,725
Special assessments .....	49,351	44,123	72,082	86,370
Miscellaneous .....	<u>628,263</u>	<u>481,123</u>	<u>588,486</u>	<u>377,171</u>
TOTAL RECEIPTS	<u>\$5,838,112</u>	<u>\$4,710,220</u>	<u>\$4,276,265</u>	<u>\$4,393,935</u>
DISBURSEMENTS:				
Public safety .....	\$1,281,273	\$1,040,788	\$1,085,543	\$ 995,812
Public works .....	1,252,340	1,690,829	1,619,371	1,295,151
Culture and recreation .....	939,102	1,041,200	1,258,630	1,046,121
Community and economic development .....	3,000			13,927
General government .....	480,657	530,146	480,940	380,367
Debt service .....	721,722	1,605,076	1,001,822	1,079,752
Capital projects .....	<u>614,263</u>	<u>709,094</u>	<u>10,928</u>	<u>73,091</u>
TOTAL DISBURSEMENTS	<u>\$5,292,357</u>	<u>\$6,617,133</u>	<u>\$5,457,234</u>	<u>\$4,884,221</u>

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$2,671,560	\$2,649,433	\$2,582,070	\$2,261,960	\$2,206,233	\$2,135,270
248,846	187,847	280,549	218,619	202,182	205,308
18,514	16,584	15,669	26,537	28,364	25,777
27,010	37,982	46,864	97,953	132,896	163,893
927,271	538,638	523,803	765,607	567,671	887,099
178,401	160,338	175,524	140,477	171,005	101,431
171,151	17,224	17,242	18,272	36,770	25,830
<u>731,882</u>	<u>502,466</u>	<u>490,343</u>	<u>521,807</u>	<u>679,773</u>	<u>1,358,900</u>
<u>\$4,974,635</u>	<u>\$4,110,512</u>	<u>\$4,132,064</u>	<u>\$4,051,232</u>	<u>\$4,024,894</u>	<u>\$4,903,508</u>
\$1,022,695	\$1,256,542	\$ 853,192	\$1,345,016	\$ 870,531	\$ 922,236
2,784,091	658,880	826,921	665,083	761,497	738,554
1,153,249	790,994	775,285	757,638	1,345,196	680,192
27,632	9,349	4,920	1,641	12,361	635
373,893	341,621	332,516	345,061	230,641	303,901
1,604,978	1,518,384	1,526,802	2,113,371	1,283,427	983,395
<u>207,874</u>	<u>764,547</u>	<u>18,543</u>	<u>291,658</u>	<u>139,788</u>	<u>3,032,922</u>
<u>\$7,174,412</u>	<u>\$5,340,317</u>	<u>\$4,338,179</u>	<u>\$5,519,468</u>	<u>\$4,643,441</u>	<u>\$6,661,835</u>



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FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
of the City of Cherokee, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated October 24, 2016. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Cherokee's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings to be a material weakness (Item I-A-16) and a significant deficiency (Item I-B-16).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **City of Cherokee's Responses to the Findings**

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Starn & Co., LPA*

October 24, 2016  
Spencer, Iowa



CITY OF CHEROKEE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiencies:**

- I-A-16 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

- I-B-16 Bank Reconciliations - During our audit, we found that account statements for all financial institution accounts were not being regularly reconciled with the total cash, cash receipts, and cash disbursements reported in the general ledger. In addition, we noted the City Clerk has been working with the software provider to resolve certain reconciliation differences.

Recommendation - We recommend the total of all financial institution account statements be reconciled monthly to the total cash, cash receipts, and cash disbursements in the general ledger. Further, the reconciliations should be reviewed by a member of management to ensure they are being properly completed.

Response - Management will perform monthly reconciliations of all financial institution statements with total cash, cash receipts, and cash disbursements in the general ledger.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2016

**Part II: Other Findings Related to Statutory Reporting**

- II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the, debt service and business-type activities functions. In addition, disbursements in the public safety function exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-16 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-16 Business Transactions - No business transactions between the City and City officials or employees were noted.

- II-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-16 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-G-16 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2016

**Part II: Other Findings Related to Statutory Reporting** - Continued

- II-H-16 Revenue Notes - The City has not maintained user rates for the sewer utility at a level sufficient to produce net revenues to the extent required by bond resolutions.

Recommendation - The City should determine whether existing sewer user rates will be sufficient to produce the required net revenues or whether user rates should be increased.

Response - We will examine existing sewer user rates to determine the level required to comply with bond resolution net revenue requirements.

Conclusion - Response accepted.

- II-I-16 Urban Renewal Annual Report - The urban renewal annual reports for FY2016 and FY2016 were approved and certified to the Iowa Department of Management on or before December 1, 2015 and 2016, respectively. However, the amount reported by the City as TIF debt outstanding was overstated on the Levy Authority Summary each year.

Recommendation - The City should ensure TIF debt outstanding amounts reported on the Levy Authority Summary agree with the City's records for the Special Revenue, Urban Renewal TIF Fund.

Response - These items will be corrected on future reports.

Conclusion - Response accepted.

- II-J-16 Tax Increment Financing (TIF) - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted the City has certain TIF districts which hold cash balances after all TIF indebtedness has been repaid.

Recommendation - The City should consult TIF legal counsel to determine the disposition of the balances held in these TIF districts, including the amounts, if any, to be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

Response - The City will consult legal counsel regarding these balances.

Conclusion - Response accepted.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2016

**Part II: Other Findings Related to Statutory Reporting** - Continued

II-K-16 Financial Condition - The Capital Project, Proprietary, Solid Waste, and Agency, Cherokee Aviation funds had deficit balances at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the accounts to a sound financial position.

Response - The deficits are expected to be eliminated through increased revenues or reimbursements and reduced spending.

Conclusion - Response accepted.